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SUBJECT: REQUEST TO END FOOD STAPLE EXPORT RESTRICTIONS:
COSTA RICA

REF: A. STATE 53353 B. SAN JOSE 347

11. SUMMARY: Costa Rica,s rising food prices have had minimal political impact to date. From 2006 to 2007, wage increases kept pace with food price increases. Over the past year, that relationship changed with food price increases easily eclipsing wage increases (Ref B). Although domestic food security concerns are gaining strength, most recommendations focus on increasing domestic production and productivity. Costa Rica proposed a National Food Plan on May 7, 2008 which aims to increase local grains production and provide direct cash transfers to the most vulnerable members of Costa Rican society. There have been virtually no calls for export restrictions as a means of dealing with rising food prices. END SUMMARY

IS THERE A PLAN?

12. On Thursday, May 7, 2008, the GOCR presented a National Food Plan that aims to ensure the availability of basic staples to the population and support the Costa Rican farm sector. There are different estimates of the cost of the government,s plan, ranging from USD 60 million to USD 88 million. The GOCR intends to reallocate existing government resources and to send an &extraordinary8 budget to the national assembly (Asamblea) to obtain funding for the National Food Plan.

13. The government,s strategy establishes short, medium and long term actions. The main goal is to secure the availability of basic food staples such as corn, beans and rice. The goal for rice, as an example, is to expand production to a total of 73,627 hectares by 2010, in order to cover 80 percent of domestic rice consumption (up from the current 50 percent).

ARE THERE OTHER BENEFITS?

14. To increase local grains production, the National Food Plan calls for an increase in crop insurance coverage by allocating an additional USD 8 million through the National Insurance Institute (INS). In addition, the GOCR will instruct the national banking system to increase credit allocations to small- and medium-size producers for agricultural equipment and machinery. The resources available through these programs will be approximately USD 16 million. The plan also incorporates support to producers for joint seed and fertilizer purchases at lower prices.

15. According to Casa Presidencial, the GOCR,s main concern is to provide a safeguard to the poorest segments of the population. The plan intends to increase the number of scholarship beneficiaries by 42,292 through the National Scholarship Fund (FONABE). Six million dollars will be made

available for this program through a budget modification. The plan will also allocate direct cash transfers of USD 100 per month to 16,000 families in extreme poverty for a total of USD 9.6 million. In addition, the plan will reinforce the Let,s Advance8 and CEN-CINAI (Centers for Children,s Education and Nutrition) programs with up to an additional USD 20 million. Both programs target the poorest segment of the Costa Rican population.

IS THE PLAN AFFORDABLE?

¶6. The GOCR will fund the National Food Plan through a combination of reallocating currently budgeted but unspent funds and borrowing. Also, the GOCR plans to take advantage of the savings in debt service that it has achieved over the past two years. Just this week, after a CenAm, Panama, and Dominican Republic ministerial meeting with the Inter-American Development Bank (IDB), GOCR,s Minister of Finance, Guillermo Zuniga stated that Costa Rica will not participate in the IDB,s USD 500 million program for mitigating the impact of the rising food process. Minister Zuniga will work with the Ministry of Agriculture to make the most of existing or internal sources of financing. The IDB noted two possibilities for Costa Rica:

(1) identifying funds for the Plan in an existing IDB rural development project; and

(2) determining if Banco de Nacional de Costa Rica has the ability to provide additional financing for small and medium enterprises (PYME) from its existing PYME portfolio.

In addition, the GOCR seeks an IDB assessment of the fiscal impact of the proposed insurance program on the budgets of the GOCR and INS.

¶7. Based on consultations with Treasury,s Office of Technical Assistance (OTA) in Costa Rica, Post believes that the National Food Plan will have limited fiscal impact. The OTA confirms that government revenues have exceeded expectations and that spending remains under control. Given the current fiscal situation, and assuming that revenues and expenditures continue their recent positive trends, the GOCR estimates that it will maintain a balanced or near-balanced budget for 2008.

THE FISCAL CONTEXT

¶8. To help put the proposed cost of the National Food Plan into context, the maximum estimate of USD 88 million represents only 0.3 percent of Costa Rica,s 2007 GDP. According to the OTA, the GOCR finished 2007 with a budget surplus of approximately USD 173 million, almost double the National Food Plan,s highest estimated cost. By some measures of the 2008 budget, the GOCR will finish the year with over USD 4.5 billion in total revenue. If the government reaches this target in 2008, the USD 88 million figure would represent less than 2 percent of total fiscal revenues.

COMMENT

¶9. We consider the National Food Plan to be a moderate and reasonable reaction on the part of the GOCR to the recent increase in food prices. The GOCR is attempting to increase domestic food production, which is exactly the recommendation of the USG (Refs A and B). Whether the effort will achieve its ambitious goals remains to be seen, as producers will need to be convinced to shift land from crops that have been quite profitable in recent years (e.g. pineapples, melons, oranges) to crops that historically generated poor returns. The GOCR is also attempting to mitigate the effects of

increases in food prices on the most vulnerable members of Costa Rican society. Based on current projections, the government can afford its National Food Plan with minimal fiscal consequences. Both financially and substantively, the plan seems appropriate given Costa Rica,s current needs and resources. Most importantly, there are currently no plans to implement any sort of food export restrictions (Ref A). END COMMENT.

[¶](#)10. FAS at Post provided the analysis of the GOCR,s National Food Plan (see paras 2-5).

CIANCHETTE